

TheCityUK Response to Business and Trade Committee Call for Evidence on Industrial Policy and the Net Zero Transition

1. About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK, across Europe and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes over 12% of the UK's total economic output and employs nearly 2.5 million people, with two thirds of these jobs outside London, across the country's regions and nations. It is the UK's largest net exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined. It is also the largest taxpayer and makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business, and protect and manage risk.

We are keen to work with the government and Parliament to ensure that the financial and related professional services (FRPS) industry can continue to contribute to the UK's success and growth. This submission sets out how government could deliver a net zero industrial policy which takes advantage of the opportunities presented by the UK's commitment to reach net zero by 2050 and the competitive advantages our country enjoys.

2. Building on competitive advantages to attract investment

The UK economy is dominated by services with approximately 80% of GDP produced by services. The FRPS industry contributes over 12% of the UK's total economic output and is the country's largest net exporter. Therefore, any UK industrial strategy must seek to continue to exploit this competitive advantage, as well as addressing sectors such as advanced manufacturing, as the committee has identified. The design and financing of industrial policy needs to be joined up with UK policies to attract foreign investment. We recommend the government make the UK more investable by:

- Mainstreaming green investment and research and development (R&D) incentives for services. R&D incentives should be broadened to cover the UK's services sector and incentivise businesses to invest in projects that deliver on the green transition.
- Creating a global talent hub, ensuring employees benefit from cross-border remote working by adopting the findings of the government's [Review on Hybrid and Distance Working](#).
- Designing the world's best, and most efficient, regulatory centre. This will involve streamlining regulatory authorisation processes, requiring regulators to publish more performance data, and enhancing cooperation with other countries by establishing financial regulatory dialogues in trade agreements.
- Delivering a safe, reliable hub for global investment by ensuring that the process for screening investments in the UK is efficient, transparent, and well-targeted on policy goals.

- Strengthening the UK as a global listings hub and taking a proactive approach to promoting the UK exchanges as attractive venues.
- Sharing the UK's proposition with the world. This will involve equipping a global diplomatic network that actively engages with how global financial markets operate and can effectively deliver sophisticated investment messages to key global investors. Government should also devolve more power to local authorities and allow them to play a greater role in attracting investment to the UK's regions and nations.

We welcomed Lord Harrington's recent review into UK Foreign Direct Investment (FDI) policy. In his report he noted that the Office for Investment should be empowered to assist investors, offering a "concierge service" to navigate the business environment and relevant HMG departments in the UK, including to deliver support on visas, the domestic skills pipeline, planning, and connections to the grid. We hope that government will implement all the recommendations of the Harrington Review as soon as possible.

3. Net zero industrial policy

Why a net zero industrial policy?

The FRPS industry has a crucial enabling role in the UK's transition to net zero. Whether it be mobilising capital to scale climate solutions, financing firms to transition to net zero, de-risking green projects through insurance, accelerating the managed phase out of high emitting assets or developing the data and methodologies required to make informed investment decisions, the industry plays a central role in delivering the net zero transition.

We welcome the government's ambition to create the world's first net zero aligned financial centre, however we believe the government needs to go further and give clear direction to all government departments to provide industry with long-term clarity and certainty on how the UK will deliver its net zero target.

Meeting the UK's 2050 net zero target will require investment in technologies and infrastructure projects at varying levels of maturity and attractiveness. These investments are often capital intensive and have long returns on investment, proving a risk for many private investors.

Uncertainty about how changes to government policy and regulation may affect low carbon assets over time risks the UK losing investments to more attractive destinations. By contrast, certainty over the government's net zero industrial policy would send clear signals and allow lenders, insurers, investors and businesses to take well informed and confident actions that will support the net zero transition and increase the level of green investment in the UK.

What kind of net zero industrial policy?

The UK is well positioned to build on its strengths in FRPS - including strong financial markets, access to a skilled workforce, strong rule of law, and a competitive regulatory environment - to foster green growth. We advocate for a net zero industrial policy which recognises these inherent advantages and builds on them.

To achieve this, we call for further government action in three key areas: long-term policy, long-term certainty, and nurturing competitive advantage.

a) Long term policy

Over recent years, the government has produced several strategies and plans for the net zero transition including the Ten Point Plan, Net Zero Strategy, and Powering Up Britain. While welcoming these initiatives, we recommend the government go further by:

- Bringing together these disparate plans under a single clear and coherent overarching strategy for the net zero transition, accompanied by a detailed delivery plan to incentivise investment, provide clear signals to the markets and drive action across the economy.
- Working with the private sector to build on its investment roadmaps - released as part of the Green Finance Strategy - to create specific, quantifiable, and actionable implementation plans for sectors across the economy, particularly in high-emissions industries. These roadmaps should be sector-wide rather than only focusing on specific technologies.
- Developing and communicating detailed timelines for how the UK plans to reduce its reliance on fossil-fuel energy, helping firms and investors understand the attractiveness of projects and allocate capital with relative confidence.

b) Long term certainty

Maintaining cross-party political support for net zero, backed by long term policies, frameworks and plans to meet net zero will also be crucial to an orderly transition. To attract private finance, the government's net zero industrial policy needs to offer the right signals to market to provide long-term certainty for investors, laying out clearly the incentives to invest in the UK.

We recommend the government consider how to make best use of the tax regime, which is often short-term in focus and has been subject to frequent change, by:

- Ensuring businesses that offer green and sustainable finance in the UK are subject to a tax regime which is internationally competitive and provides long-term certainty in tax structures, rates, policy and administration.
- Adjusting and broadening the R&D regime, which is still geared towards investments in manufacturing over services, to support the development of technology for the net zero transition.
- Continuing to find ways to simplify and streamline the UK's tax system, which is a key part of international attractiveness.

c) Nurturing competitive advantage

The government must use Britain's solid foundations to introduce policy and incentives to nurture industries in which it has, or could have, competitive advantage. This includes industries such as carbon capture, utilisation and storage (CCUS), green hydrogen, tidal and wind power, battery and hydrogen storage, and sustainable aviation fuel. Completing business models for CCUS and continuing progress on scaling up green hydrogen production

will be vital to maintaining a global lead in these industries. In doing so, the UK can progress the net zero transition while creating jobs, driving regional growth, and securing greater energy security.

We recommend that the government support these industries by:

- Creating a specific government unit to focus on net zero planning and delivery.
- Committing to delivering projects at pace, coordinating regulation and delivery such as manufacturing and installation, and dealing with bottlenecks by driving policy and delivery alignment across departments and at multiple levels of government.
- Supporting this with planning reform, upgrading grid capacity, and focusing on improving green skills to reflect workforce needs.
- Crowding in private investment to projects, some of which are high-risk for investors, supported by public investment (such as blended finance) or subsidies, accompanied by effective and proportionate regulation and reporting standards to de-risk and scale-up low carbon investments.

Remaining at the forefront of technology and innovation policy will also be vital in ensuring the continued competitiveness of the UK as an international financial centre and supporting the transition to net zero. By leveraging digital technologies, the UK can become a leader in developing and implementing innovative solutions in the green transition. To maintain this competitive advantage, the government should pursue a proportionate approach to regulating emerging technologies, protecting consumers and safeguarding financial stability, without impeding the pace of innovation and development.

A net zero industrial policy which delivers clarity

There is a need for greater clarity on which industrial policies the UK will pursue to raise the huge scale of public and private finance needed to support its net zero ambitions. Such clarity would help match private investment needs with capital flows and help ensure that capital can be raised at the lowest cost. The government should publish interim national net zero capital raising plans, setting out the UK's investment needs to 2030/2035, and how it intends to generate the capital required. This phased approach will help provide clarity on the investment needed to reach 2030/2035 goals of reducing the UK's greenhouse gas (GHG) emissions by 68% and 78% respectively from 1990 levels.

The government's net zero industrial policy should mandate independent tracking of financial flows including mechanisms to monitor, report and verify progress in meeting the capital-raising requirements. This could be conducted through a body such as the Climate Change Committee and doing so would allow gaps in funding to be identified and addressed. There is also merit in setting up a hub or clearing system to conduct initial due diligence on companies focused on emerging low carbon technologies. This will help to identify the most credible ones and establish a financing pipeline.

To de-risk and scale up low carbon investments, the net zero industrial policy should focus on government support, through blended finance solutions, price stabilisation mechanisms and first loss positions. There have already been examples where risks have been mitigated and policymaking has been used to deliver investment, phase down coal and increase the

share of renewables - such as in the UK's electricity market. Blended finance therefore offers much potential, as it can make use of small amounts of concessional donor funds to mitigate specific investment risks. Blended finance is most needed where investments are not considered to be investment grade and where the perceived investment risk is high. Sectors such as hydrogen and CCUS could benefit from blended finance solutions through both the start-up and scale up stage.

A net zero industrial policy which delivers jobs and skills for the future

The achievement of net zero should be pursued alongside a 'just transition' that supports local jobs and security through investment and growth. The International Energy Agency (IEA) estimates that globally over 30 million new jobs could be created in clean energy, efficiency and low-emissions technologies by 2030.

To capitalise on this opportunity, there is a need to improve green skills. Improving green skills within the FPRS industry is required so that the industry can continue to scale up its support for net zero across the economy, and drive innovation in green finance. We support the government's ambition of creating two million green jobs in the UK by 2030. However, recent PwC research¹ showed considerable regional disparity in job creation. Scotland, London and the South East are currently positioned to reap the greatest benefits in green jobs.

To ensure that green jobs flow from investments in every region and nation of the country, we need reform to skills policy. TheCityUK's *Enabling Growth*² report highlights ways in which this can be done:

- Add more flexibility to the Apprenticeship Levy system to enable employers to use it to re-train and reskill workers to adapt to the jobs of the future in all parts of the country. We previously submitted our [five-point plan for reform](#) to the Committee as part of their inquiry into UKPLC2050 in 2023 and reiterate our commitment to these ideas here.
- Different regions and nations of the UK will specialise in different transition and green technologies due to their local demographics, geography, universities etc. To take advantage of this and ensure the right skills are developed in the right areas we have previously called on the government to include the further devolution of education policy and funding to Mayoral Combined Authorities in future English devolution deals, with the long-term aspiration of local leaders taking a greater role in oversight of education at all phases so this can be better integrated with Local Skills Improvement Plans.

All parts of society will need to transition to net zero, and this needs to be inclusive and beneficial to all. This will require increasing investment in green jobs and skills, providing access to low-cost finance and working with local communities to ensure the benefits are spread equally. Such efforts will be crucial in supporting a 'just transition' and ensuring that public support for net zero is maintained. The UK should ensure that all net zero-related industrial policies and activities support a 'just transition'.

¹ [PwC Green Jobs Barometer \(pwc.co.uk\)](#)

² [Enabling growth across the UK 2023 \(thecityuk.com\)](#)

4. International collaboration on reporting standards and disclosures

International collaboration is crucial to advocating for a consistent and coordinated approach to the net zero transition. A primary example of where it is desirable for the UK to cooperate internationally is in sustainability disclosures and reporting standards.

At present there is a lack of consistency and standardisation, with a plethora of sustainability standards, frameworks, and taxonomies. This makes it difficult for investors to collect and compare data and creates onerous reporting requirements. We need to ensure that there is comparability and consistency in global reporting standards and have supported efforts from government and other stakeholders, including business groups, to drive interoperability and global cooperation on sustainability disclosure requirements.

We encourage global cooperation on the main principles of convergence and recognition of common concepts where they exist. Building on existing practices and initiatives is key, such as the work of the Taskforce on Climate-related Financial Disclosures (TCFD), Taskforce for Nature-related Financial Disclosures (TNFD) and the standards developed by the International Sustainability Standards Board (ISSB).

The government must continue to engage with other jurisdictions and with international institutions, including standard setters, to drive global convergence and interoperability on sustainability disclosures and reporting standards, so that the UK as an international finance centre can build on its strengths to deliver green and sustainable investments in the UK and beyond.

In less well-developed areas, like reporting on nature- and biodiversity-related risks and exposures, there is an even bigger opportunity for the UK to shape emerging policy and standards to ensure cross-jurisdictional coherence.

5. Supply chain resilience and critical minerals

We welcome the progress the government has made towards securing a resilient supply of critical minerals for the UK's transition to net zero, since the Critical Mineral Strategy was published in July 2022. In the current geopolitical environment, there is a risk of creating uncertainty about the distinction between economic or supply chain security, on the one hand, and national security on the other. We understand there is ongoing work by the government regarding treatment of critical minerals under the National Security and Investment Act (NSIA).

Government should consider the implications of the NSIA requirements for critical minerals supply chains, given the extra territorial powers under the Act (where overseas suppliers of critical mineral and components to which they are integral may be caught under the Act). Since the UK NSIA regime does not maintain a "whitelist" of acceptable jurisdictions (unlike the US), it is important that any requirements under the Act do not inadvertently deter suppliers to the UK.

6. Conclusion

The FRPS industry is an engine for growth for the whole economy and is well placed to facilitate the UK's transition to net zero. Policymakers must act now to deliver a net zero industrial policy that responds to the increased level of international competition, providing the right policy signals and incentives to the market to provide long-term certainty for investors, nurture competitive advantage and support a 'just transition'.